

# Better Business Plans

## and a Checklist for Success

*Expert knowledge means success*

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

## Introduction

The key to understanding your business and hence planning for growth, is the 'business plan' which requires you to get down on paper, key information about your business - historical and projected, financial and non-financial. It plays an important part in promoting an understanding of the business within the business itself but also has a key role in adding substance to a proposal for obtaining funds from an external source – such as a bank.

The aim of any business plan must not be to persuade a bank or investor to say 'yes' to a shaky proposition - this does none of the parties any good. Your business plan should lend some substance to your business proposal by giving credibility to what you intend to achieve. Don't use your business plan simply to show how much you know about your business. Use it to set concrete tasks, responsibilities, and deadlines. Use it as a blueprint for the way in which your business will work. Remember that nobody is going to read a long-winded business plan - nobody is going to be interested in something that's more than 50 pages long. Useful business plans contain concrete programs to achieve specific, measurable objectives. Good business plans assign tasks to people or departments. They set milestones and deadlines for tracking implementation.

## The Need for a Business Plan

Not everyone who starts a business begins with a business plan, but it helps to have one. If you are looking for finance from a venture capitalist or a bank, then you will certainly need a comprehensive business plan that is well thought out and which demonstrates sound business reasoning.

If you are approaching a banker for a loan for a start-up business, it's likely that you will be asked for a business plan whether you have collateral security or not. If you have an existing business and are approaching a bank for finance to expand the business, you may not be asked for a business plan, but your

chances of getting the money you want are greater if you have one.

Reasons for writing a business plan include:

- Supporting a loan application
- Raising equity funding
- Defining objectives and describe programs to achieve those objectives
- Creating a regular business review and course correction process
- Defining a new business
- Defining agreements between partners
- Setting a value on a business for sale or legal purposes
- Evaluating a new product line, promotion, or expansion.

### What's in a Business Plan?

A business plan should prove that your business will generate enough income to cover your expenses.

If you are writing a business plan for a bank, your bank manager will want to see that your ideas are well thought out. The most important aspect will be your financials. Are your assumptions realistic? Will the cash flow of the business be enough to ensure that you can make the monthly payments for the loan that you have requested? If your business is making £2,000 a month and your payments are £3,000 a month, the bank is likely to turn you away.

When considering an investment opportunity, most venture capitalists (VCs) look at the obvious trends and market niches. But the most important factor in a decision to invest in a company is the quality of the people. The venture capital axiom is "people, people and people." VCs will ask: How experienced are the people that are going to run this business? Do they have knowledge of the industry? Have they started successful ventures in the past?

### What Makes a Successful Business Plan?

- Presents a well thought out idea
- Contains clear and concise writing
- Has a clear and logical structure
- Illustrates management's ability to make the business a success
- Shows profitability.

### Sweeter relationships with bank managers?

A guide, entitled *Get your bank manager to say 'YES'!*, has been published by the Forum for Private Business (FPB) in response to mounting concerns over the banks' lending to smaller firms. FPB report that almost 80% of their members recently reported that the terms and conditions of bank lending have got worse over the past year.

The issue hit the headlines after Government enterprise czar and Apprentice star Lord Alan Sugar claimed some small business owners had only themselves to blame for their inability to access finance. Lord Sugar said he understood the banks' reluctance to lend to many smaller firms and put much of the problem down to inflated expectations created by easy access to credit over the past decade. The FPB took issue with many aspects of Lord Sugar's views and believes thousands of viable, well-managed SMEs are unfairly being denied loans.

The new FPB guide is intended to help address this problem and give small businesses the best possible chances of securing a loan. Outlining seven golden rules for securing a bank loan, the guide is co-written by three expert figures. Electronic copies of the guide will be available free of charge to small businesses through the FPB's website. It is the first in a series of authoritative BusinessBuilder guides which the FPB is producing in order to help smaller firms to prosper. This new guide is available only on completion of a form on the FPB website at: [www.fpb.org/page/698/Bank\\_manager\\_report.htm](http://www.fpb.org/page/698/Bank_manager_report.htm)

## Need more money? - Searching questions

Every kind of business, whether sole trader, partnership, or limited company, needs to plan its business growth. To achieve successful results you will need to provide answers to some very searching questions. Tick those below that you can truthfully answer right now:

- Where you are you now? (Your current status)
- Where have you come from? (Your experience)
- Where you are going? (Your ambitions)
- What are the obstacles? (The problems and challenges that will have to be overcome)
- Do you have the ability to do what needs to be done? (How are you going to cope)
- How are you going to do it? (Your strategy)
- How much you will get out of it? (Why are you doing it)
- How much it will cost? (How much money will you need)
- Will it be worthwhile? (Are there other options)
- How long will it take? (The timeframe)
- What will you do next – after your goals have been reached? (What next).

Growth targets will not be met unless you get the structuring of your finance right. It is inevitable from time to time that you will need to seek additional finance from a bank - whether from your established local branch or a potential new source. Bank managers can only make decisions on the information presented to them and if this is insufficient or inaccurate then disappointment for the potential borrower is the likely outcome.

At the end of this publication, we've included a checklist of all of the information the bank manager is likely to need before a lending facility can be agreed. Although the major banks each have different procedures, structures and lending discretions, they are all primarily in the business of lending money and would rather say 'yes' to a viable proposition than look for an excuse to say 'no'.

Subject to certain variation in description, bankers use an acronym PARTS – this is shorthand for the following information. What:

- Purpose do you need the loan for?
- Amount do you require?
- Repayment pattern do you propose?
- Term will the loan be over?
- Security can you offer?

## Professional Help

In compiling your business plan, you will need to engage professional help to:

- Advise on the accounting, budgetary and reporting systems to control and monitor your business properly;
- Assist in the preparation of the business plan, including cash flow and profit forecast statements;
- Provide introductions to banks, if requested, and attend at meetings with you to present your proposals;
- Assist in the monitoring after the facility has been provided by, for instance, preparing management accounts, comparing budget with actual performance and advising about any action you need to take.

This publication is not designed to tell you how to run your business. Neither does it tell you how to run your finances, get more sales or be better at marketing. It assumes that you are proficient in those areas or that you will learn what needs to be done by enlisting help from experts.

The idea behind this publication is to help you document how your business is to be run. Each of us has a number of options available when faced with how our business is to be structured and, through the thought processes of compiling a business plan, you should be better prepared in choosing the right option in your own particular circumstances.

## Starting on your Business Plan

At the beginning, what will you have to think about?

Perhaps, the first thing you'll need to address is: What business are we in or what business do we want to get into? Only through defining the business and its purpose will you be able to answer this key question.

Then, you'll have to define the people who will be running the business. What roles will need to be filled? How will you recruit these people, and keep them.

Unless you scan the market and the business and economic environment in which you intend to operate, your business plan is likely to fail. So, you'll have to think about how you gather key information about the market and the environment. It won't be easy and you must remember that your competitors are probably doing the same thing.

Having done the above, maybe, just maybe, you will have identified a niche in which you can operate despite competition in your business sector. If you know what your business is going to do and the niche in which it intends to operate, you will have to decide on a pricing policy for your products or services. The less competition you have, the better chance there is for you to apply premium pricing. If there is intense competition, you will have to think about other ways (other than low prices) to attract your customers - in particular, you must address the delivery mechanisms you use to deliver your service or product.

Your marketing strategy comes next. You've defined the business you want to be in and you have an appreciation of the market and the economic factors that may affect you. By now, you may even have been able to identify a niche sector. What comes next is perhaps the most important part of the business plan - it is your marketing strategy. How exactly do you intend to create the demand and awareness in the marketplace for your product or service? Will you do this by advertising, direct mail, seminars, press articles, special offers or whatever?

Experience shows that the more attention is paid to marketing strategy, the greater will be your prospect of success.

If you have defined to a very precise degree your marketing strategy, you must remember that its main objective is to create sales. So, next on the list in your business plan is your sales strategy. Here, you will have to write down exactly how you intend to get your marketing strategy to produce sales for you. You should by now be able to produce a forecast of sales.

Where will you operate from? The process of signing up on a property lease or tenancy agreement can be long winded and there is a great deal of small print in these legal documents for you to take great care over when committing yourself to business premises.

You'll have to forecast all the costs that you will have to bear - such as the cost of labour, materials, overheads and so on. These numbers will go into your financial projections. You will also have to consider what equipment - such as machinery, vehicles, computers and so on - you will need to buy.

With all the above information, you should be able to prepare an outline business plan with financial projections within just a few days.

## Taking Stock

It's always a good idea when planning anything to look at what you need and compare it with what you have. For example, if you plan to go on a train journey, when you arrive at the station you will need to buy a ticket and you will look in your pocket to see if you have enough money. You will also check the train will arrive in time for the meeting you have planned. Chances are that you will also check to see if there is a quicker way to get to your destination.

When planning a destination for your business, it's a good idea to check on the areas of knowledge and skills that you will need in order to achieve success. For example, try filling in the following table:

What knowledge and skills are needed	What knowledge and skills do you have in your organisation?
Technology - what technology is needed for the kind of business you intend to run and what skills are needed to take advantage of the software, hardware and equipment you will need.	
In depth knowledge - for example, typical cost factors, breakeven points, turnover and gross margins and contractual arrangements with customers, suppliers and subcontractors.	
Marketing and sales - undertaking research about the need in the marketplace for your products or services; how you can estimate demand; understanding demography; how to identify your market sector and how to reach your customers; the selection of appropriate communication means in advertising, direct mail and brochures; managing your sales force and technical resources; and dealing with customers.	
Money - understanding how to budget for costs and income and manage cash flow, calculating margins and reading periodic trading statements, interpreting the balance sheet, assessing alternative financial strategies and making decisions about the source and application of funds.	
Managing and motivating people - for example, understanding how to recruit the right personnel for your business, managing teams and developing the skills of individuals within those teams, maintaining effective relationships with customers, suppliers, advisers and shareholders.	

## Strategic Questions

**You should start with the following questions:**

- What is it that you intend to sell - can it be regarded as a product at all or is it a service? If it is a product, how many different options would you offer? Are there too few or too many? If it is a service, how can you define it so that the customer can clearly see what you are offering?
- How do you want to position yourself in your marketplace - remember, that there are only two real positions you can hold. The first is as a price effective supplier whilst the second is as a differentiator. If your focus is solely on price, your competitors could find it easy to match what you are offering. On the other hand, if your focus is as a differentiator, that is much more difficult for competitors to imitate. So, do you want to concentrate on a high price combined with high quality, reliability and high quality service, or do you intend for achievements of high volumes at low prices?
- Who do you intend to sell to - in other words, who will be your customers? Will they be individual members of the public and if so from what social and geographical area will they come from? (For further information on socio-geographical classifications, please ask for our publication on the subject of demography). If you intend to sell to businesses, will it be to manufacturers who add value to your product or service or will it be to shops and other retailers? If it is the former, what type of manufacturers would you sell to, what do you know about the decision-making processes in these organisations for placing orders? If you intend to sell to shops, what type of shops and in what location?
- How will customers know what you have to offer - will there be any passing trade or do you intend to create awareness through advertising or direct mail? Will you employ sales people? How do you intend to use technology, such as the Internet, to help your sales initiatives?

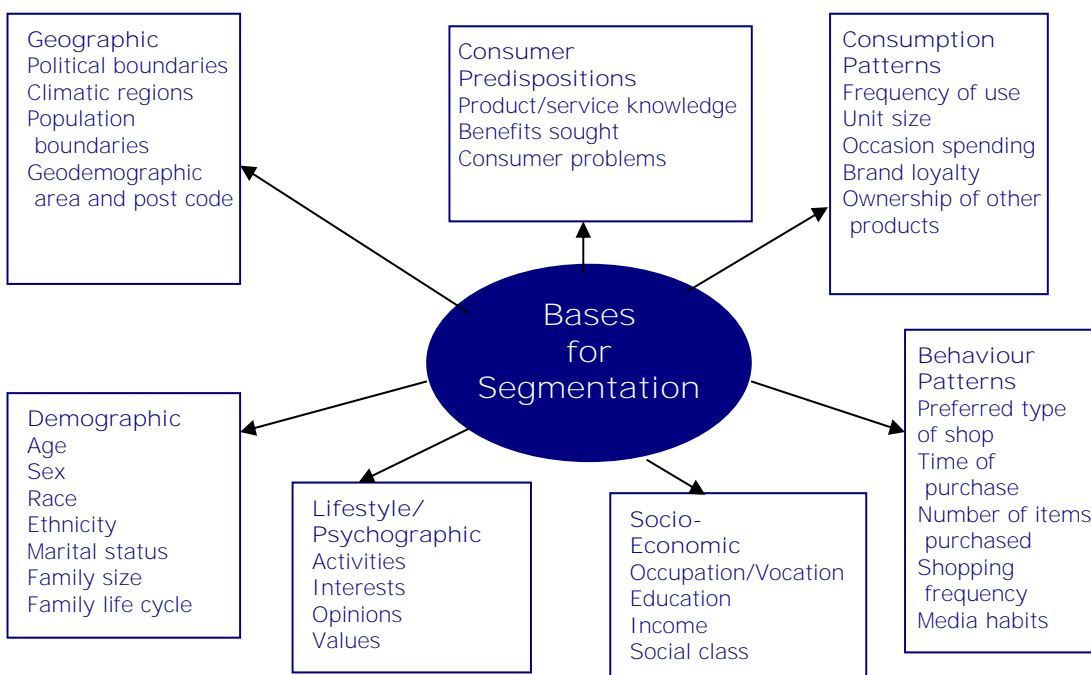
- Where will you buy from - if you have to buy materials, are they readily available? Are they subject to price volatility? Can you buy the materials wholesale?
- If yours is a service business, how will you provide your services? Will the business rely on you and other highly technical or creative people in short supply or would it be possible to train others to provide most of the elements of the services you offer? Is it possible that services can be provided electronically or products sold through the Internet? Have you considered franchising?
- How precisely will you sell - directly to the public, to manufacturers, through retailers or agents, by mail order, through distributors, via telephone sales or through your Web site on the Internet?
- How will you support your sales - what delivery mechanisms do you have in place? What after sales service systems are in place? Are there any geographical restrictions on where you can sell?
- Where will money come from - to finance sales on credit, to finance equipment essential for the operation of the business, to finance initial marketing costs particularly for new products and services?

## Understanding where customers can come from: Demography and Segmentation

Demography is the study of the population, its size, distribution, composition (such as by social, ethnic, age or other groupings) and its changes in relation to social factors such as geographical boundaries. Actually, the words "demography" and "demographics" come from the Greek word "demos" meaning people. Replace the word "population" by "customer" and you'll see straightaway why demography has such an important part to play in marketing.

If you are trying to "segment" your potential market, you've got to know as much as possible about the people who live and work in that market and their predictable buying habits. The demographic characteristics of age, sex, marital status, family size and income category are easily understood variables in the market segmentation exercise and their relationship to various product and service needs are both obvious and well established.

The following table indicates the typical bases used for segmentation of consumer markets (see where demographic factors fit in).



Demographic- or Market-segmentation

Demographic- or Market-segmentation is the division of your potential market into groups based on variables such as age, gender, family size, occupation, education, religion and so on. In simple terms, demographics describe the profile of a particular market segment<sup>1</sup>. There's another factor called "Psychographics" - the attitudinal traits people exhibit in their approach to life. Because both sets of traits have an impact on buying behaviour, both have an impact on how you should package, price and communicate your product to your key segments. Tapper's examples of demographic and psychographic attributes include:

Consumer Demographics examples

- Age
- Gender
- Occupation
- Household Income
- Marital Status
- Presence of children in the household
- Home Value
- Geographic Region(s).

Business Demographics examples

- Job Title
- Industry Type or SIC Code
- Annual Sales
- Number of Employees
- Geographic Region(s).

Psychographics (attitudes) examples

- Need for status
- Role of money (does it buy material things, self-esteem, etc?)
- Ethics/"moral compass"
- Risk-taker vs. conservative
- Spendthrift vs. hoarder of money.

And when the target audience is identified, you'll then have an idea of what your key message should be and how to convey it.

## Do you have a niche?

Do you have a niche? You might have – let's see.

What are the main features of what you offer?	What Advantages flow from these features?	What Benefits can you identify for this group of customers?

Complete these sections

Think about this - precisely how will you position your goods and services in the marketplace against the offerings from your competitors?

Perhaps, by analysing what you have to offer you might be able to identify a market niche that has commercial and financial advantages for your organisation. You will have to think about what to offer to your customers by looking at it from the customers' perspective. Have you considered your delivery times? Are the colours and sizes of what you have to offer in line with what your customers want? Do you offer stock products or can you offer individualised, personalised and customised products and services? Is reliability and prompt supply more important to your customer than price?

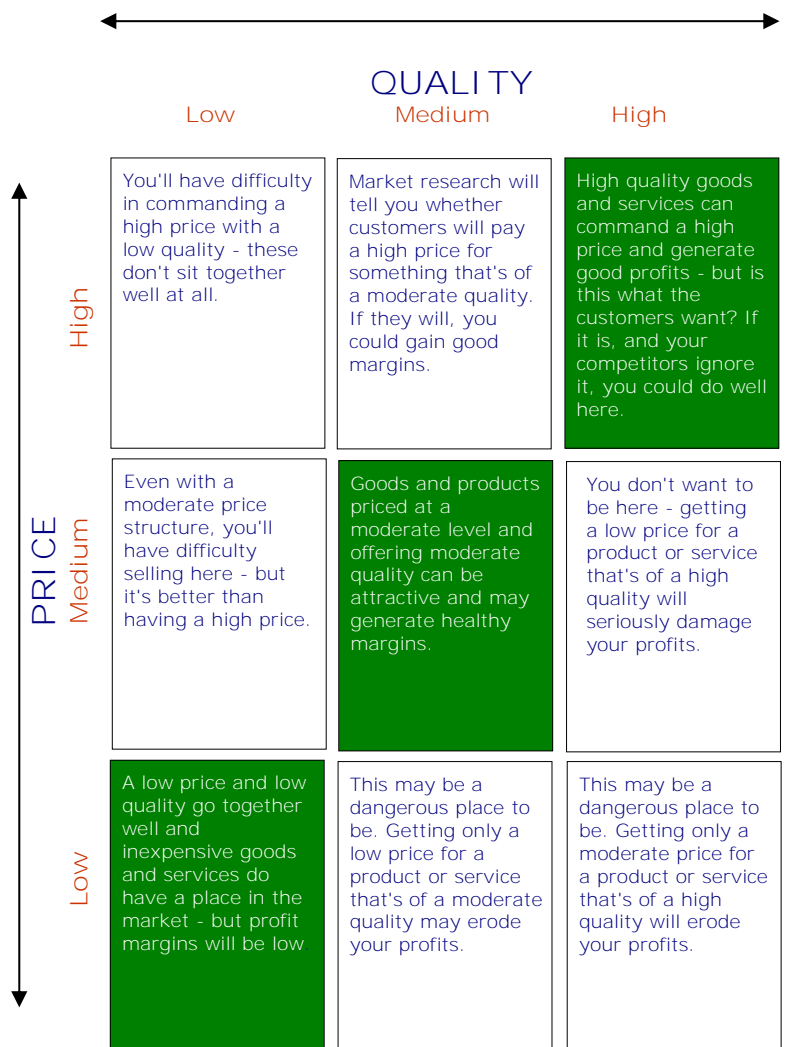
When you have finished thinking about your business and what to offer from the above perspectives, you will be in a better position to see whether or not you have or could have a market niche. Try filling in the following tables (when you get to the features, advantages and benefits table, you will only be able to complete it if you have talked to and truly understand why your customer buys and what he/she does with your product or service).

	Low Quality Low Price High Volume	Medium Quality Medium Price Moderate Volume	High Quality High Price Low Volume
What can you/do you provide?			
What can/do your competitors offer?	Complete these sections		
What is your USP - your competitive edge?			

### Pricing is Important

How will you go about determining what price you should charge for your products or services? You will be influenced by what your competitors are charging and what the market can bear. Another important factor that you cannot ignore is the cost that you will have to pay in order to make the product or service available to your customer. It may be that your competitors have a lower cost base than yours or that they can buy in raw materials at a lower cost than you can. On the other hand, price isn't the only thing which customers are interested in. By listening to customers and getting close to them, you will be better placed to find out what is really important to them.

The table opposite will help you to "position" your product or service in the marketplace. As you can see, the best place to be is in the green boxes.





## How good is your marketing strategy?

Your marketing strategy should help you to decide how you are to reach your customers and maintain intelligence about them in the marketplace. Its objective is to get sales and generate income. In order to do this you'll have to decide how you will attract the attention of your potential customers and how you will create a demand for your products or services. Your marketing message and the way in which it is delivered to your prospective customers, should be sufficiently strong enough that some response from them is forthcoming.

To be successful in marketing and selling you must know who your customers are and why they will be interested in your products and services. You must be able to attract the attention of prospective customers. How you will do this will depend on your particular circumstances but you must get some form of response from your prospective customers otherwise you will have no chance of selling to them. Consider these questions:

- How will you appeal to the prospective customer?
- How do you intend to put your message across?
- What help will you need from designers and consultants in putting together your advertising and marketing literature?
- How much will this exercise cost?
- How do you expect the prospective customers to respond to you?
- When you do get a response, how will you attempt to close the sale?
- What script must you put in front of all your salespeople so that they are fully prepared and so have the best chance of concluding the sale?
- What training do your salespeople need?
- What systems will you need to ensure that customer orders are promptly processed?
- What information gathering is necessary to help you with your future marketing initiatives?

## Are you in the right sector?

Factors such as competitive pressure, the threat of new or alternate products, existing products going out of fashion as well as regulatory control from Government and other authorities, all conspire to make running any business today a risky activity. One of the fundamental questions that all business owners should ask is: "*Are we in the right business sector?*" It means thinking about what you are going to sell (whether as a product or service) and considering:

- The characteristics of your industry.
- The main risks to which your business may be exposed.

These factors are incorporated in the tables that appear next.

# Better Business Plans and a checklist for success

INDUSTRY CHARACTERISTIC	Low Risk	Moderate Risk	Moderately High Risk	High Risk
Cost structure	Low operating leverage; low fixed costs; high variable costs	Balance of fixed and variable costs	Fixed costs moderately higher than variable costs	High operating leverage; high fixed costs; low variable costs
Maturity	Mature industry – sales and profits still increasing at a reasonable rate	Maturing industry – beyond major growth problems and shake-out of weak competitors	Emerging industry – still growing rapidly; weak competitors are just beginning to drop out. Or a highly mature industry just on the verge of decline	Emerging industry – growing at an explosive rate. Or a declining industry with sales and profits decreasing
Cyclicity	Not affected by business cycle	Sales rise and fall mildly – reflecting expansion and recession	Sales moderately affected by expansion and recession	Highly cyclical or counter-cyclical
Profitability	Consistently profitable through expansions and recessions	Consistent but lower than average profitability during recessions	Profitable during expansions; mildly unprofitable during recessions	Unprofitable during expansions and recessions
Dependence	Highly diversified customer or supplier base	Customers or suppliers are limited to several industries – but none represent more than 10% of sales or purchases	Customers or suppliers are limited to a few industries – some represent 20-30% of sales or purchases	Highly dependent on one or two other industries or customer groups
Vulnerability to substitutes	No substitutes available or likely to be available	Few substitutes available or high switching costs to them if they are available	Variety of substitutes available or moderate switching costs	Many substitutes easily available with no switching costs
Regulatory environment	Friendly regulatory environment that protects or enhances the industry's health. Any changes are easily predictable	Unregulated or only slightly regulated. Regulatory changes are highly unlikely or predictable	Regulations have noticeable adverse impact on revenues or costs; predictable and manageable impact	Regulations have significant and chronic adverse impact on industry health. The regulations are subject to sudden and unexpected change

BUSINESS RISK ANALYSIS	Low Risk	Moderate Risk	Moderately High Risk	High Risk
Industry (see table above)				
General characteristics Size Maturity Diversification				
Product – market match Importance Differentiation				
Supply Price Availability Purchasing				
Production Consistency Technology Catastrophes Labour relations				
Distribution Reach Control Flexibility				
Sales Competition Bargaining power Demand Concentration				
Management Experience Depth Breadth Integrity Board Do they meet goals				

Complete these sections

## Business Plan Check List - What to submit to Lenders

We've designed the following checklist to help you prepare the best presentation of your financial requirements to your bank or other lending source. Some points may not be relevant to every presentation and so the list must be carefully reviewed to identify the areas applicable to your business.

### The Business

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- Background information - History
- How and when did the business start - give a brief description of important events in its history
- If you are a new business or venture - why have you decided to go ahead
- General nature of the business - what do you sell - what services do you supply and to whom
- Financial overview – a quick summary of the financial status of the business
- Last 3 years' audited accounts
- The latest available management accounts
- Details of changes in the business or its finances, since the date of the last accounts
- Analysis of turnover by product and market
- Description of the business premises - freehold or leasehold - what are the terms of the lease; what is the state of the building; is it adequate for your needs
- Description (and list if possible) of plant, office equipment and furniture, vehicles and other fixed assets
- Details of stock and work in progress - location, value, etc
- Details of debtors (receivables) - how much is owed to you, has a bad debt provision been set up, how is your credit control, give an age analysis of debtors
- Customer and credit profiles – who you sell to and buy from
- Existing financial commitments (include hire purchase, leasing, mortgages, guarantees and other charges)
- Valuation of assets (ideally by an independent valuer)
- List and give details of your business and property insurances
- Identify key elements for success.

### Management

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- Age, qualifications, experience of directors, proprietors and senior employees
- Responsibilities, terms of employment, etc. of above
- Life assurance arrangements for management and key personnel.

### Advisers and Bankers

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- Give the names and addresses of auditors, accountants, solicitors and insurance brokers
- Give the name of the existing bankers of the business
- Give details of existing bank facilities provided (loans and overdrafts).

### Marketing

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- Give details of the market (its size, location and nature)
- What market penetration exists/is aimed for
- What market research information do you have
- Who are your competitors and how will they react to your success
- What are your pricing, promotion and customer service plans
- What new technology or specialist business features does your business have
- How will you increase and measure customer satisfaction.

### Method of Operation

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- Photographs, drawings etc of the project/venture
- If the project/venture goes wrong because of factors outside your control (eg. weather or delays) what contingency plan do you have
- How will management cope with the new project/venture
- New staff and training required
- Succession strategies
- How will any new plans affect your current business
- Reduction or sharing of overheads
- Consideration of planning permission and any legal restrictions, etc.

### Financial Projections

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- Amount of finance required and purpose (eg. start-up, expansion, diversification)
- Forecasts should cover the period of loan, or at least 2 years

- Show clearly the cash flow generated from the new project/venture
- Allow for effects of inflation wherever possible
- Show VAT payments to HM Revenue & Customs
- Show overdraft and loan position at the end of each month/quarter
- Show debtors and creditors at the end of each month/quarter
- Show forecasted balance sheet as at the end of the period covered by the projections
- Allow margin for unforeseen circumstances (contingency)
- Show main assumptions used
- Include sensitivity analysis showing effect of not meeting key elements.

## Security

(Have this information ready but do not include it as part of your presentation)

- The assets available as security (business & personal)
- The assets already secured.

## Conclusion

Your business plan is like your calling card, it will get you in the door where you'll have to convince investors and bankers that you can put your plan into action. You want your calling card to look impressive, so make sure your business plan is printed out on good quality paper and check the spelling and grammar. Make sure that your numbers add

up. Anyone who sees errors while reading your plan will wonder whether you are going to make similar errors in running your business. A great business plan is the best way to show bankers, venture capitalists, and business angels that you are worthy of financial support. Make sure that your plan is clear, focused and realistic. Then show them that you have the tools, talent and team to make it happen.

## Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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